

ANNUAL REPORT



2002



ResREIT

RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

financial highlights

2002

quality...

REAL ESTATE NICHE

PORTFOLIO

ASSET MANAGEMENT

RESIDENT EXPERIENCE

EARNINGS

GOVERNANCE

INVESTORS

strong...

MARKET FUNDAMENTALS

RISK MANAGEMENT

UPSIDE POTENTIAL

TRACK RECORD

OPERATIONAL FOCUS

LOCATIONS

TENANT MIX

OPERATING PERFORMANCE

IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS

	2002	2001	% INCREASE
Property rental income	113,254	106,402	6.4%
Property net operating income	58,189	53,318	9.1%
Net income before unusual item	19,576	16,998	15.2%
Distributable income	32,388	27,838	16.3%
Distributable income per unit ¹	\$ 1.22	\$ 1.17	4.3%
Cash flow per unit ¹	\$ 1.24	\$ 1.19	4.2%

¹ Weighted number of units 2002 – 26,491,569 (2001 – 23,834,593)

BALANCE SHEET

AS AT DECEMBER 31

IN THOUSANDS OF DOLLARS

	2002	2001
Gross book value of property assets, beginning of year	590,625	547,166
Acquisitions	39,651	31,974
Capital expenditures	8,833	11,485
Gross book value of property assets, end of year	639,109	590,625
Mortgage debt and bank loan payable	383,086	348,357
Loan-to-gross-property book value	59.9%	59.0%

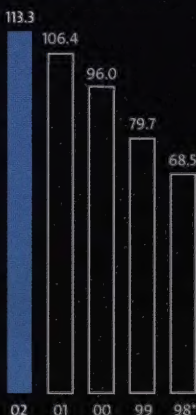
about ResREIT

ResREIT is one of Canada's largest residential real estate investment trusts, focused on enhancing the value of urban high-rise apartments for its residents and investors. ResREIT provides stable, tax-efficient monthly distributions through its 100% controlled nation-wide portfolio consisting of 63 residential properties and 10,325 residential suites.

To learn more about ResREIT, its portfolio and investment highlights, please visit www.resreit.com. For property and rental information, visit www.resrent.com.

OPERATING REVENUES

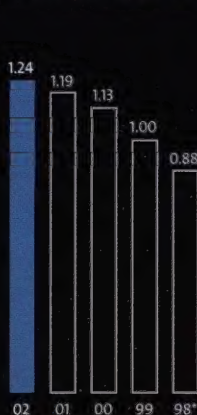
IN MILLIONS OF DOLLARS



*Annualized

CASH FLOW FROM OPERATIONS

IN DOLLARS PER FULLY PAID UNIT



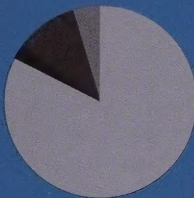
DISTRIBUTIONS PER UNIT

IN DOLLARS



i found this great space

GEOGRAPHIC DISTRIBUTION OF SUITES



Ontario	8,313
Québec	251
Alberta	1,053
British Columbia	473
TOTAL	10,090

2002 RETURN COMPARATIVES



ResREIT annual return
ResREIT average return over 5 years
S&P/TSX Composite
S&P/TSX Real Estate Index
S&P/TSX REIT Index

IFC ACHIEVEMENTS, INITIATIVES, FINANCIAL HIGHLIGHTS

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wanted: RENTERS BY CHOICE



an urban residential niche

34% OF RESREIT'S PROPERTIES ARE SUBWAY ACCESSIBLE

■ ResREIT Properties in Toronto's Core (map is not to scale)



present

2002 ACCOMPLISHMENTS

we said*...

"continue to pay stable monthly distributions and provide solid returns to unitholders"

MAINTAINED MONTHLY DISTRIBUTIONS OF \$0.0875 PER UNIT – WHILE MOVING THE PAYOUT RATIO BELOW 85% OF CASH FLOW

"invest \$6.5 million toward our capital improvement program to create value in existing portfolio"

INVESTED \$8.6 MILLION TO CREATE A PORTFOLIO IN WHICH MOST INITIAL MAJOR PROJECTS ARE NOW COMPLETE

"acquire 1,000 suites in well-located buildings with upside potential"

ADHERED TO A CONSERVATIVE STRATEGY IN A COMPETITIVE MARKET, ADDING 447 SUITES IN THE GTA – WELL-LOCATED PROPERTIES BELOW REPLACEMENT COST THAT ARE ACCRETIVE TO UNITHOLDERS

"capture enhanced growth resulting from higher-than-expected suite turnover in 2001"

GREW OPERATING REVENUE BY 6.4%, AVERAGE RENTS BY 4.8% AND DISTRIBUTABLE INCOME BY 16.3%

"deliver value-added services and technology to our residents"

ENHANCED OUR TENANT RETENTION STRATEGY WITH PROACTIVE BUILDING AND COMMUNITY INITIATIVES

"maintain a risk-averse, fiscally responsible strategy"

STRENGTHENED OUR BALANCE SHEET BY REFINANCING \$36.1 MILLION OF LONG-TERM DEBT AT RATES BELOW 6% FOR FIVE- TO 10-YEAR TERMS

** from the ResREIT 2001 Annual Report*

future

2003 OBJECTIVES

PURSUE ACCRETIVE ACQUISITION OPPORTUNITIES IN LARGE URBAN CENTRES (GTA, Vancouver, Calgary and Montréal)

REDUCE ANNUAL CAPITAL EXPENDITURES TO APPROXIMATELY \$6.0 MILLION TO \$7.0 MILLION AS PORTFOLIO IS LARGELY RENOVATED

FULLY ROLL OUT MARKETING AND SALES STRATEGY (new call centre, Web site and central rental office) TO ATTRACT AND RETAIN TENANTS

BECOME A SELF-FINANCING REIT OVER THE NEXT TWO YEARS

BUILD ON OUR STRONG TRACK RECORD OF PROVIDING STEADY AND GROWING DISTRIBUTIONS AND CAPITAL GROWTH POTENTIAL, WHILE WORKING TOWARD A PAYOUT RATIO OF 80%

MAINTAIN A CONSISTENT BALANCE OF ENTREPRENEURSHIP AND CONSERVATISM, FISCAL RESPONSIBILITY AND SOCIAL EQUITY



letter TO UNITHOLDERS

Where We Are

STRONG, CONSISTENT PERFORMANCE

ResREIT continues to hold an exceptional position in the most stable sector of real estate – urban multi-unit residential. I am pleased to report that, in 2002, we were able to once again deliver solid growth in terms of revenue, distributable income, internal value creation and several key acquisitions. These results carry on what we are proud to say has become a tradition of consistent performance and sustainable growth. From our advantaged position in an attractive market, we are executing a sound strategy that has provided ResREIT investors with an average annual total return of 16.7% over the past five years.

The urban multi-unit residential sector has particularly strong economic fundamentals with a history of steady demand and relatively low and stable vacancies. In 2002, 40-year-low interest rates trended ResREIT's vacancies up to 3.4% for the year. This trend is reversing as we head into 2003. Against 48,000 housing starts and 11,000 new condos in the Greater Toronto Area, nearly 230,000* people immigrated to Canada last year, with 49%* settling in the GTA. In addition, we continue to see more empty nesters, young professionals and transient executives making the lifestyle choice to rent for location, flexibility, convenience and certainty. ResREIT is committed to meeting this demand, investing capital and management expertise to improve the quality of urban apartments for Canadians who choose to rent.

Of course, every initiative to improve the quality of life for our residents must also meet certain business-case requirements to ensure the longevity of ResREIT for all stakeholders – and quality returns for our investors. In 2002, ResREIT grew operating revenues by 6.4% to \$113.3 million. Property enhancements and inherent turnover led to average monthly rents of \$937, up from \$894 in 2001. This increase notwithstanding, there is still a significant gap between ResREIT's current rents and market rents, which means further potential within our portfolio. ResREIT's net income was \$19.6 million, compared to a net loss of \$4.7 million last year (after a one-time charge of \$21.7 million), and distributable income grew by 16.3% to \$32.4 million. On a per-unit basis, cash flow increased 4.2% to \$1.24 with distributable income up 4.3% to \$1.22.

This strong performance is testament to the resiliency of our organization and the stability of our real estate niche. We view this achievement to be just as important to our residents and unitholders as growing the quality of our buildings and the value of our units.

THE OPPORTUNITY

ResREIT operates in a niche market with properties situated in prime locations across Canada. As a responsible landlord, we continuously strive to improve the quality of our current

* Source: Citizenship and Immigration Canada



"THIS STRONG PERFORMANCE IS TESTAMENT TO THE RESILIENCY OF OUR ORGANIZATION AND THE STABILITY OF OUR REAL ESTATE NICHE. WE VIEW THIS ACHIEVEMENT TO BE JUST AS IMPORTANT TO OUR RESIDENTS AND UNITHOLDERS AS GROWING THE QUALITY OF OUR BUILDINGS AND THE VALUE OF OUR UNITS."

properties; as an active manager, we will continue to add value to our portfolio through acquisitions and existing asset enhancement. We believe that a portfolio of well-located urban apartment buildings, conservatively financed and operated, will deliver consistently superior long-term returns.

In 1998, ResREIT identified and acquired 33 apartment buildings with upside potential – 6,838 residential units in desirable urban neighbourhoods. Through conservative management, capital improvements and further strategic acquisitions, we now have 63 properties (10,325 suites) in five major Canadian urban centres.

Today, ResREIT has an acquisition capacity of over \$200 million available for future acquisitions, and we expect to self-finance sustaining capital expenditures from operating cash flow within the next two years. We have increased our annual distribution to unitholders every year, while at the same time reducing our payout ratio to less than 85% of cash flow, ensuring long-term sustainability for our investors.

These financial achievements have come in concert with significantly improved living standards for the people who live in ResREIT's buildings. From the outset, we recognized the importance of meeting resident demand for quality – and ResREIT's responsibility to the communities in which our buildings are located. Starting on page 6 of this report, we profile our residents and some of their experiences in our buildings as evidence of the strong demand for this lifestyle, and ResREIT's success in satisfying it.

What We're Doing

ACTIVE MANAGEMENT

With limited product available that met our stringent acquisition criteria, we remained discriminating and disciplined about purchases in 2002. Determined not to grow for growth's sake, we sought deals that were both accretive and a strategic portfolio fit. In April 2002, we purchased a leasehold interest in a 199-suite luxury condominium building in Mississauga, Ontario, for \$21.0 million. Somerset Place (2076 Sherobee Road) provides a first-year levered return in excess of 15%, complements our GTA holdings, is located in a high-growth community and has amenities that cater to renters-by-choice: indoor/outdoor pool, exercise room and two home theatres.

Late in the year, we acquired a three-building complex in Toronto's affluent Yonge/Lawrence neighbourhood. Developed in the 1930's by a prominent builder, "Chatsworth Place" (profiled on page 13) offers a unique repositioning opportunity as an upscale art-deco experience for residents, in a strong location. Also in December, we acquired 4067 Longmoor Drive in Burlington, Ontario, a property showing strong occupancy and growth potential.



active management focused on...

CONSISTENT, ATTRACTIVE RETURNS

MEASURED GROWTH

MARKET FUNDAMENTALS

IMPROVED RESIDENT EXPERIENCE

OPERATIONAL ENHANCEMENTS

RISK CONTROL

ACCOUNTABILITY TO RESIDENTS
AND INVESTORS

FULL, INTERNAL ALIGNMENT

We are optimistic about the acquisition horizon going forward, as we see more attractive product coming on stream with better pricing. In March 2003, we accretively acquired an 11-building, 235-suite luxury complex (60% registered as condominium) in Saint-Laurent, Québec for \$23.0 million. Built between 1998 and 2000, these properties are situated in the highly successful Bois-Franc planned community – a central location with nearby subway access, adjacent to regional shopping facilities and just three kilometres east of Dorval airport. This recent acquisition represents an excellent portfolio fit and strengthens our presence in an attractive market.

With respect to internal growth, ResREIT continues to reposition select properties to take advantage of the demand for high-quality, urban apartments. That said, with \$44.7 million invested over the past five years to improve individual suites, building envelopes, lobbies, corridors, life safety and energy retrofits, most of the major projects are now complete. Capital expenditures for 2002 were \$8.6 million, and we expect to invest \$6.0 million to \$7.0 million into the portfolio in 2003.

Another tenet of our active management strategy is mitigating risk. In 2002, we refinanced \$36.1 million of long-term debt at rates below 6% for five- to 10-year terms. Less than 10% of ResREIT's total debt is floating and less than 20% matures in any one year, reducing the impact of potential interest rate spikes and further strengthening our conservative balance sheet.

We are constantly assessing risk and cost controls for energy and other homogeneous expenses. When the Ontario government introduced legislation to de-regulate hydro in May 2002, we developed a hedge strategy to fix ResREIT's hydro costs and reduce exposure to price increases. When a form of hydro regulation was later re-introduced, guaranteeing prices to 2006, we deemed hedging unnecessary and re-focused on energy management and assessing sub-metering options.

Where We're Going

INHERENT UPSIDE

Our niche continues to offer tremendous fundamentals. On the supply side, the average book value per suite is \$63,300 versus a replacement cost of approximately \$180,000, making it much more economically viable to buy existing buildings than to build new. Vacancy rates are currently trending down, with a target of 2.5% in our portfolio for 2003.

ResREIT's portfolio is still well below market rents. With a renovated portfolio and projected turnover, we plan to continue our pattern of increasing distributable income while retaining funds for required capital projects.

Operationally, we are focused on achieving excellence in both asset and property management. ResREIT's commitment to Quality Living, Quality Investment will include continued

ACTUAL VERSUS MARKET RENT



growth through acquisitions; creating value through repositioning and capital improvements; savings through cost containment and other risk management initiatives; and looking for ways to attract and retain residents.

In 2003, we expect to grow the portfolio by 1,000 suites with acquisitions in major Canadian urban centres, such as Montréal, Toronto, Calgary and Vancouver, as purchase prices become more in line with our stringent acquisition criteria.

While vacancies have stabilized, we are working harder to attract and retain tenants in a more competitive market. We have created a new full-time position in leasing and marketing to increase tenancy. We have a centralized rental presentation centre at 411 Duplex Avenue in Toronto, with access to rental information about our properties, floor plans, amenities and the community at large. We have launched a new Web site – www.resrent.com – solely dedicated to the promotion of our apartment suites to potential residents. Low-cost, high-impact signage – which currently brings in 50% of our business – has been augmented, and we continue to advertise vacancies in *Renters News* and other community papers.

ResREIT has enhanced tenant relations – and facilitated numerous lease renewals – by calling residents 90 days prior to lease termination to encourage retention. We also survey existing residents to assess their needs and interests on a regular basis. In addition to our timely maintenance program, we have established value-added services such as fitness classes, public health nights, language training and enhanced security. In 2002, we began hosting events to raise funds for local charities such as women's shelters and food banks. In short, we are working hard to distinguish ResREIT as a landlord of choice for discerning residents.

We are also committed to being an investment of choice. Our track record speaks for itself in terms of long-term performance and conservatism. We are the "Subway REIT", with a portfolio dominated by some of the most envied real estate locations in the country. We provide investors with an attractive, stable, tax-efficient yield – and do so on a sustainable level with a commitment to reduce ResREIT's payout ratio to 80% over the next two years.

In our efforts to meet ResREIT's quality mandate, I would like to thank our dedicated management team and staff for their tireless contributions; our Board for their guidance and focus on strong corporate governance; our unitholders for their continued support – and our valued residents for choosing a home in ResREIT.

Dino Chiesa
PRESIDENT & CHIEF EXECUTIVE OFFICER

ResREIT provides its diverse tenant base with more than mere physical space. We endeavour to create an experience that attracts quality residents, which in turn enables us to create long-term value for all stakeholders. We are able to meet existing demand with sought-after locations – with the capital resources to make our properties even more desirable. For instance, we facilitate fitness classes, educational programs and other service enhancements. We see our place in the community at large and take this responsibility seriously through charity work, safety initiatives and general upkeep. Most important is our alignment with residents. For ResREIT, an ideal acquisition target is an ideal dwelling – attractive, well-located, properly maintained, safe, accessible to public transit and invariably convenient to neighbourhood amenities.

Though we'll elaborate on our property management initiatives on subsequent pages, we thought it might be interesting to hear from our residents first.



Femi Adejumo, Site Administrator
274 Cedar Avenue

"I'M VERY PARTICULAR, SO MY FIRST STEP AS A RENTER WAS TO CHECK OUT SEVERAL BUILDINGS ON THE WEB SITE TO IDENTIFY SPECIFIC AMENITIES IN MY PREFERRED LOCATION. ALSO, I LIKE THE FACT THAT ResREIT IS AN INVESTMENT TRUST – I'M NOT JUST A TENANT, I'M AN INVESTOR; IT'S THE NEXT BEST THING TO HOME OWNERSHIP."



Meredith Meaden, Media Consultant
124 Broadway Avenue

"I CHOOSE TO RENT BECAUSE I TRAVEL A LOT; THAT'S MY PASSION AND IT'S WHERE I WANT TO ALLOCATE MY EXTRA MONEY RIGHT NOW – NOT TOWARD A MORTGAGE OR HOUSE REPAIRS. I CHOSE TO LIVE IN A ResREIT BUILDING BECAUSE IT'S GOT WHAT I WANT: IT'S QUIET, SAFE AND IDEALLY LOCATED FOR ME – CLOSE TO WORK, SHOPPING AND RESTAURANTS."

residents

FIRST

We know from experience that good tenants gravitate toward progressive landlords. In order to attract long-term residents who respect their surroundings, we've recently implemented a number of initiatives that are already garnering results. By creating a new position – Manager, Leasing and Marketing – we're even more focused on the intricacies of resident attraction and retention: positioning our properties within an upscale urban niche, targeting renters-by-choice, achieving rental uplifts, renewing leases proactively and investing in our buildings in order to create additional value for unitholders and residents alike.

As vacancy rates increased to 3.4% in 2002, we concurrently increased advertising in *Renters News* and other community papers to attract new tenants, expanded the hours of operation in rental offices to be more convenient for potential residents and hired and trained more rental agents. We also created a central rental office at 411 Duplex Avenue in Toronto with rental information, floor plans, photos and other relevant rental information. Our target for 2003 is to continue our efforts and reduce the vacancy rate to 2.5%.

This year, we've launched a new Web site – www.resrent.com – a resource that not only positions each building within the context of our entire portfolio but also enables potential tenants like Femi Adejumo (page 6) to select a preferred city, neighbourhood, features and amenities. We now include the Web address on a vast array of signage that is strategically placed in core areas of our portfolio.



SPACE EXPERIENCE QUALITY
LOCATION LIFESTYLE
SICK OF THE VALUE

Welcome to ResRENT

Finding the right apartment is an important decision; you have to think about location, quality, amenities and lifestyle. For a growing number of Canadians, who rent by choice and invest their savings, ResRent is the place to go. At ResRent.com we'll do everything we can to help you find the urban or suburban apartment you want. ResRent.com is the place to go.

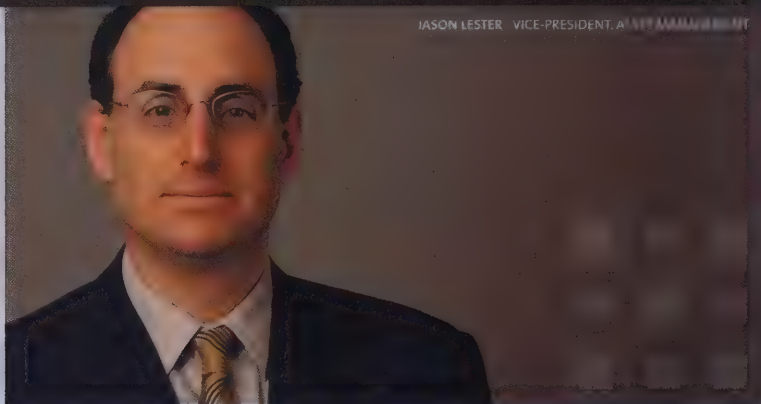
resrent.com assists potential tenants to find exactly what they are looking for: a high-quality, well-located urban apartment building with desirable features and amenities.



This recent ad in Renters News helped us to properly position a newly acquired property to potential residents in the Metro Toronto core.



We're encouraged by the increased traffic in our new central rental office at 411 Duplex Avenue.



retaining RESIDENTS

While attracting residents is critical to revenue generation, retaining those residents is even more of a priority, ensuring consistency and stability in the portfolio. As residential real estate experts, we've introduced a tenant retention program to ensure fewer tenants leave while improving their rental experience.

By studying rental rollovers, we're alerted to **lease renewals** 90 days in advance in all of our buildings. By simply calling our residents to discuss their plans and requirements, we're able to pre-empt many vacancies. We've also been proactive in providing enhanced services to our tenants. Throughout the portfolio, we facilitate fitness classes, such as yoga and aquafit, and provide space for worship, educational courses and outreach programs. We have also enhanced security systems (lighting, sightlines, cameras, etc.) in our buildings to provide tenants with greater peace of mind.

ResREIT has also instilled a sense of **social equity** portfolio wide. In 2002, we partnered with our tenant base to raise funds for women's shelters, food banks and other worthy causes through a host of charitable initiatives. We're working closely with residents, local businesses, public-sector agencies and the federal government on the San Romanoway improvement project in Toronto. We're in the second year of a three-year revitalization plan that will serve as a model for other neighbourhoods. Capital enhancements of \$1.0 million and a \$300,000 federal grant are being used not only to enhance lighting and security but also to improve the quality of life for children and youth in the complex through a multitude of social programs.

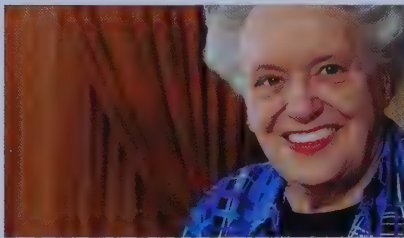
Responsiveness is a priority as we uphold our reputation for timely completion of maintenance requests from tenants, cleanliness and upkeep of all common areas in our buildings. Capital improvements to halls, lobbies, elevators, fitness centres, landscaping and other areas of interest continue to improve the resident experience. Although the portfolio is now largely renovated and, consequently, we will spend less on capital expenditures in 2003, investment is an ongoing component of active asset management. With new acquisitions, for example, **capital investment** enables us to reposition a property to extract greater value and provide a unique offering within our upscale urban niche. In 2003, we'll reposition "Chatsworth Place" in Toronto to appeal to residents in its affluent Toronto neighbourhood (for more on this recently acquired property, see page 13). We estimate investing another \$6.0 million to \$7.0 million throughout the portfolio for capital enhancements in 2003.

Fundamentally, however, it is our buildings that provide the impetus to attract and retain our tenant base. By purchasing well-located, attractive properties, such as "Chatsworth Place", Bois-Franc in St. Laurent, 2076 Sherobee Road in Mississauga and 4067 Longmoor Drive in Burlington, we're able to provide residents with a lifestyle experience and appeal to our target market: discerning renters-by-choice.



Loren Padelford, Advertising Executive
411 Duplex Avenue

"THIS IS MY THIRD RESEIT BUILDING. I SEEK THEM OUT BECAUSE THEY ALWAYS SEEM TO OFFER HIGHER QUALITY SERVICE, AMENITIES AND PROXIMITY TO PUBLIC TRANSIT. I LIKE TO MOVE A LOT, GET TO KNOW DIFFERENT PARTS OF THE GTA AND RENTING GIVES ME THIS FREEDOM. I'M ABLE TO LIVE IN A WELL-MAINTAINED, SECURE, CONVENIENT PLACE A BLOCK AWAY FROM MY OFFICE – AT AN AFFORDABLE PRICE."



Nora Pape, Retiree
411 Duplex Avenue

"MY APARTMENT IS MORE THAN A BUILDING FOR ME, IT'S MY COMMUNITY. I'VE LIVED AT YONGE AND EGLINTON FOR OVER 30 YEARS, KNOW MY NEIGHBOURS, MY SUPER-INTENDENT AND EVEN THE MERCHANTS IN THE MALL UNDER MY BUILDING. I CAN LEAVE MY UNIT WITHOUT MY COAT IN THE WINTER AND MEET MY FRIENDS DOWNSTAIRS IN A COFFEE SHOP OR A RESTAURANT."

why rent?

ECONOMICS:

- Ability to affordably live in a key urban centre
- Free or lower the investment, purchase or travel
- An unexpected loss
- Free ownership can be cost prohibitive

LOCATION:

- Close apartment on the subway line
- Close to shopping, retail, restaurants, and entertainment

LIBERATION:

- To move is required or desired

SECURITY:

- Entry with cameras 24/7

MAINTENANCE:

- Management has continuing presence

AMENITIES:

- Swimming pools, sauna, tennis, work clothes, etc.

IMPROVEMENTS:

- Timely appearance and improvement to units

COMMUNITY:

- Neighbourhood, work, social activities



BRITISH COLUMBIA

At the well-located International Plaza in Vancouver, we're investing \$300,000 in new elevators to help improve operating efficiencies.



ALBERTA

Mayfair Place at 6707 Elbow Drive S.W. is one of Calgary's most recognizable landmarks – a majestic building that offers a unique living experience to renters-by-choice. With four properties in Alberta, we're well positioned to benefit from the strong growth opportunity in this attractive market.



QUÉBEC

The recent acquisition of Bois-Franc, a luxury apartment complex in Montréal, strengthens our existing presence in the Québec marketplace, meeting our mandate: Quality Living, Quality Investment.



ONTARIO

Late in the year, we made prudent acquisitions to enhance our GTA portfolio: a three-building, subway-accessible complex in Toronto's affluent Yonge/Lawrence neighbourhood, 4067 Longmoor Drive in Burlington, and 2076 Sherobee Road, a luxury condominium building in Mississauga.

PROPERTY portfolio

DURING 2002, WE COMPLETED \$8.6 MILLION OF BUILDING IMPROVEMENTS THROUGHOUT THE PORTFOLIO, WHICH IS NOW LARGELY RENOVATED.

RECENT acquisitions

GROWTH THROUGH ACQUISITIONS

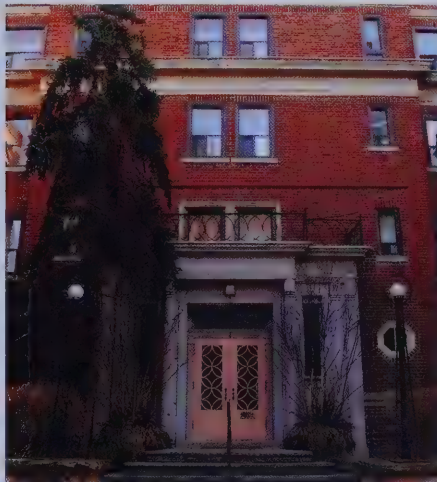
NUMBER OF SUITES

2002	10,090
2001	9,643
2000	9,111
1999	8,251
1998	7,251
IPO	6,838

GROSS BOOK VALUE

IN MILLIONS OF DOLLARS

2002	639
2001	591
2000	547
1999	489
1998	405
IPO	371



OUR MOST RECENT ACCRETIVE
ACQUISITIONS ENHANCE
OUR PORTFOLIO WITH
STRONG OCCUPANCY AND
GROWTH POTENTIAL

- Somerset Place
2076 Sherobee Road
- Bois-Franc Residential Project
- 4067 Longmoor Drive
- Chatsworth Place
2928, 2932 Yonge Street and
1 Cheritan Avenue

ACQUISITION CRITERIA

- FOCUS ON CORE MARKETS
- ATTRACTIVE URBAN NEIGHBOURHOODS
- IDENTIFY DISTINCTIVE PROPERTIES
WITH IMPROVEMENT POTENTIAL
- PURCHASE BELOW REPLACEMENT COST
- ACCRETIVE TO UNITHOLDERS



portfolio

SUMMARY

	PROPERTY	YEAR BUILT	TOTAL SUITES	AVERAGE RENT ¹	VACANCY RATE ¹	AVAILABILITY RATE ¹
ON	33 Davisville Avenue, Toronto	1973	266	\$ 809	1.50%	1.50%
	111 Davisville Avenue, Toronto	1970	370	949	3.24%	3.24%
	77 Huntley Street, Toronto	1973	561	865	1.07%	1.07%
	88 Isabella Street, Toronto	1968	82	1,056	1.22%	1.22%
	921 / 923 / 925 St. Clair Avenue West, Toronto	1955	71	743	1.41%	1.41%
	500 Murray Ross Parkway, Toronto	1978	390	1,032	1.79%	1.79%
	10 San Romanoway, Toronto	1977	428	965	4.21%	4.21%
	1 / 23 Oriole Road, Toronto	1954/55	127	1,006	4.72%	2.36%
	411 Duplex Avenue, Toronto	1974	455	1,019	2.64%	1.76%
	33 Orchardview Boulevard, Toronto	1976	326	1,035	1.84%	1.53%
	1004 Lawrence Avenue East, Toronto	1966	65	919	6.15%	3.08%
	236 Dixon Road, Etobicoke	1963	123	965	0.81%	0.81%
	1055 Bloor Street East, Mississauga	1971	323	1,020	6.50%	5.26%
	Park Royal Portfolio, Mississauga	1967/68/74	601	976	10.15%	8.82%
	25 Bay Mills Boulevard, Toronto	1974	281	1,056	2.14%	0.36%
	100 / 101 / 200 / 201 White Oaks Court, Whitby	1978/79	704	922	5.26%	4.69%
	5200 Lakeshore Boulevard, Burlington	1966	72	1,010	1.39%	0.00%
	7 / 9 Roanoke Road, Toronto	1963	226	912	2.65%	1.33%
	56-88 Cassandra Boulevard, Toronto	1965	160	1,266	4.38%	3.13%
	20 Shallmar Boulevard, Toronto	1963	155	1,096	1.94%	1.29%
	2515 Bathurst Street, Toronto	1955	115	1,001	3.48%	3.48%
	124 Broadway Avenue, Toronto	1956	86	880	6.98%	5.81%
	100 Wellesley Street East, Toronto	1970	424	1,081	3.07%	0.94%
	6 John Street, Oakville	1978	75	1,434	1.33%	0.00%
	221 Glenridge Avenue, St. Catharines	Late 1970s	136	735	0.00%	0.00%
	100 Lancaster Drive, Welland	1979	112	709	0.89%	0.00%
	511 Guelph Line, Burlington	1964	83	884	0.00%	0.00%
	33 Eastmount Avenue, Toronto	1965	211	997	4.27%	4.27%
	505 Locust Street, Burlington	1975	118	987	0.00%	0.00%
	30 Livonia Place, Toronto	1979	200	914	1.00%	0.50%
	2051-2067 Prospect Street, Burlington	1968	71	849	1.41%	0.00%
	1360-1422 Tyandaga Park Drive, Burlington	1968	84	921	0.00%	0.00%
	351 Geneva Street, St. Catharines	1973	106	738	3.77%	1.89%
	363 Geneva Street, St. Catharines	1972	109	622	1.83%	0.92%
	34 / 36 / 42 Maitland Street, Toronto	1912	56	903	1.79%	0.00%
	274 / 276 / 278 Cedar Avenue, Richmond Hill	1974	95	907	2.11%	2.11%
	2076 Sherobee Road, Mississauga	1984	199	1,272	7.54%	5.03%
	2928 / 2932 Yonge Street & 1 Cheritan Avenue, Toronto ¹	1935	156	NA	NA	NA
	4067 Longmoor Drive, Burlington ¹	1973	91	NA	NA	NA
			8,313	\$ 969	3.48%	2.73%
PQ	55 Laframboise, St. Laurent	1990	143	717	0.70%	0.00%
	321 Lanthier Avenue, Pointe-Claire	1978	108	1,121	0.00%	0.00%
			251	\$ 891	0.40%	0.00%
AB	6707 Elbow Drive S.W., Calgary	1971	272	787	6.25%	4.78%
	924-7th Avenue S.W., Calgary	1969	154	792	1.95%	1.95%
	8510-111th Street, Edmonton	1965	310	717	1.29%	0.00%
	9100 Bonaventure Drive S.E., Calgary	1982	317	828	8.83%	7.26%
			1,053	\$ 779	4.94%	3.70%
BC	1959-1999 Marine Drive S.E., North Vancouver	1975	473	769	0.00%	0.00%
			473	\$ 769	0.00%	0.00%
TOTAL			10,090	\$ 937	3.39%	2.63%

¹ Data for Yonge/Cheritan and Longmoor Drive are not included as these properties were being repositioned at the end of 2002.

Art Deco Appreciation

CHATSWORTH PLACE

Centrally located on Toronto's subway line at the intersection of Lawrence Avenue and Yonge Street, Chatsworth Place is a 156-suite, three-building complex that was slated for demolition when ResREIT purchased it at 50% below replacement cost. A \$1.5 million capital investment will restore this 1930's property to its former art-deco style, repositioning it to attract discriminating renters with its central location, landscaped courtyard, upgraded common areas and larger-than-average suites.

Purchase price	\$ 12.5 MILLION
<i>Leveraged return of approximately 12%</i>	
Price per suite	\$ 81,000
<i>50% below replacement cost</i>	
Average monthly rent/suite, pre-acquisition	\$ 838
Current comparable average market monthly rent	\$ 1,107



Chatsworth Place

2928/2932 Yonge St. and 1 Cheritan Ave.

THIS UNIQUE ACQUISITION WITH
INHERENT UPSIDE POTENTIAL
SATISFIES ResREIT'S MANDATE AND
FURTHER STRENGTHENS THE
PORTFOLIO IN A CORE MARKET.

Portfolio Update

THE RESIDENCES OF YONGE- EGLINTON CENTRE

In 2002, ResREIT initiated a repositioning strategy at this central Toronto property in order to offer renters-by-choice optimum choice. Utilizing both the power of effective communications and targeted property upgrades, our strategy allows us to attract and retain valued residents. These initiatives include new signage, a logo to better reflect the urban, upscale "feel" of the building (a high-rise that shares a luxurious indoor swimming pool, rooftop deck and sauna with neighbouring ResREIT building 411 Duplex Avenue), advertising in *Renters News*, lobby and corridor renovation, in-building programs and the separation of the management office from the rental office, to better attend to the specific needs of both existing and prospective residents.

This undertaking has culminated in the recent re-launch of the property as The Residences of Yonge-Eglinton Centre, a name that reflects both its upscale stature and prime Toronto location. Through this repositioning strategy, ResREIT anticipates capturing greater value from this building in the years to come.

Capital expenditures since acquisition	\$ 2.6 MILLION
Average monthly rent/suite, pre-acquisition	\$ 759
Current average monthly rent/suite, year end 2002	\$ 1,035
Current comparable average market monthly rent	\$ 1,206



*The Residences of
Yonge-Eglinton Centre*

33 Orchardview Blvd.

PORTFOLIO INITIATIVES DESIGNED
TO ATTRACT AND RETAIN RESIDENTS
INCLUDE THE REPOSITIONING OF
OUR PROPERTY AT 33 ORCHARDVIEW
BOULEVARD.



BOARD OF TRUSTEES

Robert D. Brown, FCA 

CHAIR

Mr. Brown is a past chair and CEO of Price Waterhouse, now PricewaterhouseCoopers LLP, and a past chair of C.D. Howe Institute and the Canadian Institute of Chartered Accountants. Mr. Brown was also a member of the Toronto Stock Exchange Committee on Corporate Governance. He has served as the Clifford Clark Visiting Economist, providing senior policy advice to the Department of Finance in Ottawa. Mr. Brown is also a past director of the Institute of Corporate Directors and now works as a business and policy consultant.

Dino Chiesa 

PRESIDENT AND CHIEF EXECUTIVE OFFICER,
RESIDENTIAL EQUITIES REAL ESTATE
INVESTMENT TRUST

Mr. Chiesa joined ResREIT in March 1999. Prior positions in the real estate industry include Assistant Deputy Minister with the Ontario Ministry of Municipal Affairs and Housing, and CEO of the Ontario Housing Corporation and The Ontario Mortgage Corporation. Presently, Mr. Chiesa sits on the Board of Directors of CMHC and is a Board member of the Canadian Institute of Public and Private Real Estate Companies, the Social Housing Services Corporation and the Toronto Community Housing Corporation. Mr. Chiesa also participates on the Boards of various community-based organizations.

John F. Daniels 

CHAIRMAN, THE DANIELS CORPORATION

Mr. Daniels was a founder, chairman and CEO of Cadillac Fairview Corporation. He is a director of the Erin Mills Development Corporation, Consolidated H.C.I. Corporation, Anitech Enterprises Inc. and Sterling Financial Corporation.

on corporate GOVERNANCE

As ResREIT reaches a five-year milestone, I am pleased to report successes at all levels, from the heightened quality of the buildings our residents call home to an average annual total return of 16.7% for investors who have been with us from the start. Active asset management – creating value through strategic acquisitions, risk management techniques, repositioning, renovations and well-honed real estate expertise – has been our key success driver and has enabled ResREIT to secure a foothold in the attractive urban multi-unit residential sector – a real estate niche with strong fundamentals.

2002: GROWTH AND STABILITY

With a continued impetus on managing ResREIT's activities to the direct benefit of unitholders, the Board of Trustees, including the Audit, Investment, and Compensation and Governance committees, have revised their guidelines to reflect better definitions of stewardship responsibilities, approval decisions, measures for receiving unitholder feedback, code of business conduct, social responsibilities, financial reporting and monitoring property management, among other important tasks. These mandates not only assist us to govern ourselves appropriately but also allow us to collectively set goals and determine expectations, which benefit all stakeholders.

With these enhanced measures in place to oversee the risks and opportunities of the business, the Board of Trustees vetted, with greater depth, all major initiatives in 2002, including prudent acquisitions of properties in Toronto, Mississauga, Burlington and, most recently, Montréal – good buildings with upside potential in attractive markets. To counter industry vacancy increases, a proactive marketing program was launched to attract and retain residents with in-building programs, upgrades, community involvement and more responsive property management.

While our governance systems have been augmented, the business strategy has not changed. ResREIT continues to provide upwardly mobile urban dwellers with desired amenities, key locations and a valued lifestyle experience, which, in turn, results in quality returns to investors – an attractive, sustainable, stable, tax-efficient yield and a further reduced payout ratio.

ResREIT's financial position has strengthened year after year. Currently, ResREIT has a strong and conservative balance sheet, with over \$200 million available for future acquisitions and a payout ratio that has dropped to less than 85% of cash flow. Management intends to fully fund sustaining capital expenditures from operating cash flow and move the payout ratio to 80% within the next two years.

GOING FORWARD

As the Board continues to govern the activities of the business, we will monitor all opportunities that allow us to mine inherent value, mitigate risk, reduce extraneous costs and enhance the quality of our product for valued residents. The Board, together with senior management, remains committed to building on ResREIT's leadership position in Canada's most attractive and enduring real estate niche. This dedication is exemplified by an outstanding 93% average attendance rate at the nine Trustee meetings held in 2002 – an indication of the integral role good governance plays in our day-to-day business environment.

With that in mind, I would like to thank our Trustees for their continued commitment to ResREIT. It is your governance expertise combined with considerable real estate and finance experience that helps management to achieve its Quality Living, Quality Investment mandates. I would also like to acknowledge Dino Chiesa, President and CEO, senior management and the employees and associates who work diligently as a team employing a strict code of business conduct, ensuring that the expectations of both investors and residents are met – and ultimately exceeded.



Robert D. Brown
CHAIR

PARTICIPATION

- Audit Committee
- Compensation and Governance Committee
- ▲ Investment Committee

Abraham J. Green, C.M. •

PRESIDENT,
GREENWIN PROPERTY MANAGEMENT INC.

Mr. Green is one of the three founders of the Greenwin Group. Since 1950, he has maintained an active involvement in all facets of the business, with a focus on the planning, development and building design areas.

Edwin F. Hawken ■▲

COMPANY DIRECTOR

Mr. Hawken is a company director, serving on the boards of various public and private corporations as well as not-for-profit organizations.

Albert J. Latner ■▲

CHAIRMAN, GREENWIN PROPERTY
MANAGEMENT INC., DYNACARE INC.,
SHIPLAKE MANAGEMENT COMPANY

As one of the three founders of the Greenwin Group, Mr. Latner continues to oversee the business development, strategic planning and financial growth of the company.

Graham S. Rennie •▲

PRESIDENT AND MANAGING PARTNER,
INTEGRA CAPITAL MANAGEMENT
CORPORATION

Mr. Rennie founded Integra Capital Management, a Canadian firm providing institutional investment management services to pension funds, endowment funds, corporations and individuals.

Graham D. Senst •▲

EXECUTIVE VICE PRESIDENT, BENTALL CAPITAL
AND PENREAL CAPITAL MANAGEMENT

Mr. Senst is a senior partner in the firm which provides real estate investment advisory services to pension funds, institutional clients and private capital. Mr. Senst has many years of senior real estate investment experience as a principal with a major Ontario pension fund and other Canadian financial institutions.



management's DISCUSSION AND ANALYSIS

Overview of Business

Residential Equities Real Estate Investment Trust ("ResREIT") is a closed-end real estate investment trust created by a Declaration of Trust and governed by the laws of the Province of Ontario. ResREIT commenced operations on February 16, 1998 by acquiring 6,838 apartment units in five major centres in Canada. These apartment units were comprised of 33 properties, nine of which were acquired under a 35-year operating lease.

As at December 31, 2002, ResREIT owned 10,090 apartment units in 62 properties located in Ontario, Québec, Alberta and British Columbia.

ResREIT invests generally in high-rise concrete, multi-family apartment buildings in major urban areas.

ResREIT's mission is:

- to provide unitholders with stable and growing, tax-deferred cash distributions from a well-located, professionally managed portfolio of apartment buildings, and
- to grow its portfolio of high-quality, well-located urban apartment buildings to provide greater diversity, and prudently increase cash distributions while retaining sufficient funds to reinvest in the portfolio.

ResREIT units trade on the Toronto Stock Exchange under the symbol "REE.UN". The principal goal of ResREIT is to deliver stable and reliable distributions to unitholders from rental income derived from multi-unit apartment properties. The chart below summarizes the cash distributions per trust unit and its closing price on the last day of each year since ResREIT began operations in February 1998.

	1998	1999	2000	2001	2002
Cash distributions ¹	\$ 0.88	\$ 0.94	\$ 1.00	\$ 1.03	\$ 1.05
Closing price	\$ 9.90	\$ 10.95	\$ 12.70	\$ 14.97	\$ 13.49
Total return ¹	7.70%	20.10%	25.11%	25.98%	(2.87%)

¹1998 distribution is fully paid and annualized

It is the goal of ResREIT to ensure that rental revenue is maximized and costs are minimized to ensure that distributions to unitholders are consistent and that sufficient funds are retained in order to finance ResREIT's capital expenditure program, which ensures the longevity of the portfolio. In order to do this, ResREIT has contracted with Greenwin Property

Management II L.P. (the “Manager”) to manage its entire portfolio. The Manager applies its proven property management expertise to achieve cost efficiencies, to maintain consistently high occupancy levels and to realize market rents.

ResREIT manages its debt in order to obtain the lowest interest cost, using CMHC-insured loans where possible, consistent with a staggered maturity schedule to reduce interest-rate exposure.

PORTFOLIO ASSET ANALYSIS

It is ResREIT’s objective to acquire multi-family, high-rise apartment buildings in major urban areas. ResREIT owns or leases 62 buildings consisting of 10,090 apartment units.

The break down of the portfolio is as follows:

Toronto (<i>subway access</i>)	3,661 Units
Greater Toronto Area	4,189 Units
Niagara Region	463 Units
Montréal	251 Units
Alberta	1,053 Units
Vancouver	473 Units

In addition, ResREIT owns over 225,000 square feet of ancillary commercial space. This space is generally attached to high-rise apartment buildings mainly in Alberta and Vancouver.

INVESTMENT ACTIVITY

Following our strategy of profitable growth, ResREIT acquired 2076 Sherobee Road in April 2002 by way of an operating lease. This multi-family, concrete, high-rise building is a 199-suite registered condominium building in Mississauga, Ontario. The acquisition value of \$21.0 million was paid for through the assumption of an existing mortgage of \$14.1 million and the balance from ResREIT’s operating line of credit. On December 11, 2002, ResREIT acquired three well-located buildings at Lawrence Avenue and Yonge Street in Toronto for an acquisition cost of \$12.5 million, financed by way of a first mortgage of \$9.4 million and the balance from ResREIT’s operating line. The buildings were built in 1935 and will undergo a rejuvenation of their old art-deco style. ResREIT will spend over \$1.5 million restoring the corridors as well as restyling the lobbies and renovating apartment units. This rejuvenation will commence in the summer of 2003.

Also in December 2002, ResREIT purchased 4067 Longmoor Drive in Burlington, Ontario for a purchase price of \$5.5 million. Financing was provided through a first mortgage of \$4.2 million on the property with the balance from ResREIT's operating line.

Review of Financial Results

NET INCOME

Net income for the year ended December 31, 2002 was \$19.6 million compared to a net loss of \$4.7 million in 2001. This translated to an increase of \$24.3 million after unusual items. Net income before unusual item was 15.2% higher for 2002 than in the same period in 2001 (2002 – \$19.6 million; 2001 – \$17.0 million). Net income per diluted unit was \$0.73 compared to a net loss of \$0.19 in 2001.

RENTAL OPERATIONS

Total property rental revenue increased to \$113.3 million from \$106.4 million, a 6.4% increase from 2001. On a same-store basis, rental revenue increased to \$106.0 million from \$104.5 million, a 1.4% increase.

The vacancy rate at the end of the year was 3.4% and the average vacancy during the year was 3.6%. This was a 2.0% increase from the previous year, which management attributed to a substitution effect where a disproportionately large number of tenants took advantage of record low interest rates to purchase houses or condominiums.

A comparison of actual 2002 to 2001 quarterly operating results:

2002	IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS				
	Q1	Q2	Q3	Q4	TOTAL
Operating revenues	27,358	28,057	28,390	29,449	113,254
Net income					
before unusual items	3,613	5,382	5,772	4,809	19,576
Basic net income before unusual items per unit	\$ 0.137	\$ 0.203	\$ 0.217	\$ 0.180	\$ 0.739
Diluted net income before unusual items per unit	\$ 0.135	\$ 0.202	\$ 0.216	\$ 0.179	\$ 0.734
Net income	3,613	5,382	5,772	4,809	19,576
Basic net income per unit	\$ 0.137	\$ 0.203	\$ 0.217	\$ 0.180	\$ 0.739
Diluted net income per unit	\$ 0.135	\$ 0.202	\$ 0.216	\$ 0.179	\$ 0.734

PAYOUT RATIO OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31

1998 ¹	100.0%
1999	94.0%
2000	88.5%
2001	86.6%
2002	84.7%

¹1998 amount is annualized.

	IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS				
2001	Q1	Q2	Q3	Q4	TOTAL
Operating revenues	26,028	25,821	27,068	27,485	106,402
Net income before unusual items	2,582	4,472	5,640	4,304	16,998
Basic net income before unusual items per unit	\$ 0.117	\$ 0.202	\$ 0.222	\$ 0.167	\$ 0.713
Diluted net income before unusual items per unit	\$ 0.115	\$ 0.200	\$ 0.219	\$ 0.165	\$ 0.703
Net income (loss)	2,582	(16,918)	5,488	4,176	(4,672)
Basic net income (loss) per unit	\$ 0.117	\$ (0.766)	\$ 0.216	\$ 0.162	\$ (0.196)
Diluted net income (loss) per unit	\$ 0.115	\$ (0.756)	\$ 0.213	\$ 0.160	\$ (0.193)

OPERATING COSTS

Realty taxes were in line with forecasts for the year and were up by 3.5% year-over-year.

Operating costs were in line with management's forecasts. Controllable costs such as repairs and maintenance and labour costs were on budget but the advertising and insurance costs exceeded management's original budgets. Advertising costs increased due to the higher vacancies in some hot spots of the portfolio. Insurance costs were significantly higher than the previous year due to the 9/11 catastrophe and because of ResREIT's previous years' claims history. Major claims included a fire in one building in Calgary, Alberta in 2000 and water damage to two Toronto properties in 1999 and 2000. 2002 saw a full reversal in insurance claims where property damage claims resulted in only \$25,000 in actual payments from insurers.

In the previous year, management had reported that it was looking to individually meter its apartment units to ensure that fluctuations in the now-deregulated hydro market would not affect ResREIT's distributable income significantly. The Ontario government has since re-introduced some form of hydro regulation in that hydro costs are fixed until 2006, which in turn has changed management's priority in that regard.

Overall, net operating margin increased to 51.4% from 50.1% last year. This increase was predominantly driven by management's control of costs during 2002.

Trust expenses were lower than the previous year due to the internalization of the Advisor in 2001. These expenses fell by \$780,000. In addition, any year-end bonuses to executives were paid in the form of units under the Unit Purchase Plan.

In 2002, mortgage interest rose to \$22.0 million from \$20.7 million, an increase of 6.3%, as certain existing mortgages which matured during 2002 were increased to fund a portion of the equity component of the properties acquired in 2002. Interest on ResREIT's operating loan decreased by \$259,000 as more debt was raised through mortgages rather than from the operating line. The current operating line of credit is \$45.0 million of which \$8.6 million has been utilized.

NET INCOME

IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS

	ACTUAL 2002	ACTUAL 2001
Net income (loss)	19,576	(4,672)
Average number of units outstanding	26,491,569	23,834,593
Basic net income (loss) per unit	\$ 0.739	\$ (0.196)
Percentage of operating revenue	17.3%	(4.4%)
Net income before unusual item	19,576	16,998
Average number of units outstanding	26,491,569	23,834,593
Basic net income per unit before unusual item	\$ 0.739	\$ 0.713
Percentage of operating revenue	17.3%	16.0%

DISTRIBUTABLE INCOME

IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS

	ACTUAL 2002	ACTUAL 2001
Net income (loss)	19,576	(4,672)
Add: Amortization (<i>excluding deferred financing</i>)	12,692	10,840
Add: Amortization of leasing costs	120	—
Add: Internalization expense	—	21,670
Distributable income	32,388	27,838
Average number of units outstanding	26,491,569	23,834,593
Distributable income per unit	\$ 1.22	\$ 1.17
Add: Amortization of deferred financing fees	543	497
Cash flow from operations (CFFO)	32,931	28,335
CFFO per unit	\$ 1.24	\$ 1.19

ResREIT has continued to follow its policy of reducing its payout from cash flow while increasing distributions to unitholders. During 2002, 84.7% of cash flow was paid out and since 1998 (when ResREIT paid out 100% of its cash flow), ResREIT has increased its distributions to unitholders from \$0.88 per unit to \$1.05 per unit. ResREIT's Declaration of Trust allows the Board of Trustees to pay out no less than 80% of distributable income. It is ResREIT's objective to retain enough cash from its operations to become cash self-sufficient in that it can use its own cash resources to fund capital expenditure requirements.

INCOME-PRODUCING PROPERTIES AND PREPAID RENTS

During the year, ResREIT added 447 units to its portfolio. Two properties, 2067 Sherobee Road in Mississauga and the Yonge/Cheritan complex (2928 and 2932 Yonge Street and 1 Cheritan Avenue) in Toronto, were acquired by way of operating leases. 4067 Longmoor Drive in Burlington was acquired as a fee-simple property. These acquisitions were financed from ResREIT's line of credit and individual mortgages on the properties at 75% loan to value for Longmoor and Yonge/Cheritan and 65% for Sherobee. These acquisitions increased ResREIT's suite count from 9,643 to 10,090 units.

CAPITAL EXPENDITURES

During 2002, ResREIT completed \$8.6 million of building improvements. Some of the major projects included roof replacements, corridor renovations, riser replacements, underground

garage work, life safety system upgrades, complete building re-keying and suite renovations. In addition, ResREIT relocated its head office to its building at 33 Davisville Avenue and has incurred to date \$686,000 to renovate the offices.

Management expects to spend a further \$6.0 million to \$7.0 million in 2003 on its capital expenditure program. It is ResREIT's general policy to only capitalize those suite renovation costs exceeding \$2,000, as well as countertops, re-tiling and tub surrounds. Suite renovation costs below \$2,000 are expensed.

OTHER ASSETS

Loans receivable amounting to \$1.9 million are recourse, interest-free loans from Trustees, officers and employees of ResREIT that were provided under the Unit Purchase Plan. These loans were provided to all participants to purchase units in ResREIT at market value, which are held by ResREIT as security for the loans. These loans are repayable at the end of three years. Accounts receivable represents normal tenant receivables, which at the end of the year amounted to \$3.3 million compared to \$2.3 million in 2001. The increase relates to the number of apartment units acquired during the last two years. ResREIT provides for doubtful debts for all tenants who have vacated units and have not paid their rent. The provision at year end amounted to \$1.0 million compared to \$679,000 in 2001. Deferred costs relate to mortgage insurance premiums and legal fees related to these mortgages and are generally amortized over the terms of the mortgages.

LIABILITIES

Mortgages payable have increased from \$339.6 million in 2001 to \$376.6 million in 2002. ResREIT's loan-to-gross-book property value as defined in the Declaration of Trust was 59.9%, which is in line with ResREIT's covenants. ResREIT's average term to maturity is 5.63 years and its average interest rate is 6.2%, which, at the end of the year, is approximately 75 basis points higher than current interest rates. ResREIT is floating 9.5% of its total debt and is well within the covenant contained in its Declaration of Trust. Accounts payable are normal trade payables and are reasonable for this time of year. Last month's rent and security deposits are in line with normal apartment business.

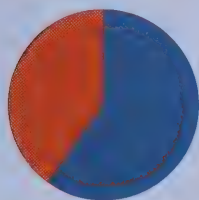
UNITHOLDERS' EQUITY

Unitholders' equity at year end was \$207.4 million compared to \$205.5 million in 2001. During the year, Trustees, officers and employees of ResREIT and employees of the property manager exercised 652,000 unit options that were previously granted and had become exercisable, for a total amount of \$6.6 million. The Distribution Reinvestment Plan generated a further \$1.4 million in cash for an additional 102,000 units. The Unit Purchase Plan also generated \$2.2 million for an additional 155,000 units. (See note 9 of the notes to the Consolidated Financial Statements.)

Table of ResREIT's closing prices for each quarter of the last three years:

	2002	2001	2000
March 31	\$ 15.00	\$ 13.25	\$ 10.40
June 30	\$ 14.50	\$ 12.99	\$ 10.95
September 30	\$ 13.67	\$ 13.90	\$ 11.60
December 31	\$ 13.49	\$ 14.97	\$ 12.70

PROPERTY DEBT-TO-EQUITY RATIO



■ Debt 60%
■ Equity 40%

LIQUIDITY AND CAPITAL RESOURCES

The residential apartment real estate business is a capital-intensive business as ResREIT is continuously investing and reinvesting in its portfolio through capital expenditure and suite renovation programs. Since its IPO in 1998, ResREIT has spent in excess of \$44.7 million in capital expenditures and suite renovations. This has predominantly been a result of 23 years of rent control where landlords did not reinvest in their properties, as legislation did not allow them a reasonable return on the expenditure. However, since 1998 the new *Tenant Protection Act* in Ontario relaxed rent control, allowing landlords to recover the costs of reinvesting in their properties by increasing rents by a maximum of 4% per annum above the statutory guideline. ResREIT has been "catching up" with this deferred expenditure in the last five years and is close to completing its initial capital expenditure program. Thereafter, ResREIT will allocate approximately \$500 per suite for its "maintenance" capital expenditure over and above normal repairs and maintenance costs. These funds will be sourced from the cash retained by ResREIT each year, which currently amounts to 15.3% of cash flow from operations. At present, ResREIT is not entirely "self funding"; but it is management's intention to be self funding once the deferred capital program is complete, which is estimated to be in the next two years.

ResREIT also incurs costs relating to securing new and renewal debt. Costs include such items as appraisals, CMHC premiums and application fees, environmental inspections and finance fees. These costs are generally deferred and amortized over the terms of the mortgage.

FUNDS FROM OPERATIONS

Funds from operations (FFO) is not a measure defined by generally accepted accounting principles (GAAP). FFO is reported in accordance with recommendations of the Canadian Institute of Public and Private Real Estate Companies (CIPPREC). It is the measure of the funds generated from the business before reinvestment in the business or provision for any other capital needs.

ResREIT's FFO is as follows:

IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS		
	ACTUAL 2002	ACTUAL 2001
Net income (loss)	19,576	(4,672)
Add: Amortization (<i>excluding deferred financing</i>)	12,692	10,840
Add: Amortization of leasing costs	120	48
Less: Leasing costs	(223)	(212)
Less: Changes in tenant receivables, net of allowance for bad debts	52	(438)
Less: Changes in non-cash operating assets and liabilities	(477)	(170)
Total funds from operations	31,740	5,396
Average number of units outstanding	26,491,569	23,834,593
Total funds from operations per unit	\$ 1.20	\$ 0.23

The distributions made during the year to unitholders were comfortably below FFO after the provision of non-recoverable items.

Risks and Uncertainties

All income property investments have a certain amount of risk and uncertainty attached to them. Residential real estate properties are affected by various factors including general economic conditions and local market conditions. Local market conditions are those subject to local risks such as vacancy rates due to a substitution effect where tenants will move from an urban setting to own a house or condominium in a suburban area where the cost is equivalent. Management tries to mitigate this risk by acquiring assets in attractive urban neighbourhoods, investing to improve their quality and through geographic diversification in major markets such as Montréal, Calgary, Edmonton and Vancouver.

FINANCIAL RISK

Financial risk generally relates to fluctuations in interest rates. In 2002, ResREIT mitigated these fluctuations by fixing its long-term debt so that no more than 20% of debt matures in any one year. ResREIT's Declaration of Trust stipulates that no more than 10% of its debt can be floating. Currently only 7.9% of ResREIT's long-term debt is floating, which is represented by four mortgages: one that bears interest at the 30-day Bankers' Acceptance rate plus 1.00%, another at the then-prevailing prime lending rate less 0.75% and two that bear interest at the then-prevailing prime lending rate less 0.50%; the rates are reset monthly. Generally, floating-rate debt is replaced with long-term mortgage debt as the long-term mortgage debt matures and can be increased to replace the floating-rate debt.

POLITICAL RISK

The residential apartment industry is not entirely market driven as it is partly controlled by legislation in most provinces. Only Alberta has a free-market system as it relates to residential rentals. In Ontario, rent legislation is governed by the *Tenant Protection Act* (TPA) of 1998. This legislation allows landlords to pass through capital expenditures by increasing tenant rents by a maximum of 4% over the statutory guideline each year. It also allows "vacancy de-control" where upon turnover, the landlord may charge the going market rent to the new tenant at which time the landlord is then again locked into the rent and may only increase the rent by the statutory guideline each year. There is always the possibility the governments may change or that existing government may change the TPA. ResREIT's exposure to the risk of re-imposing rent control is limited, as most of its rents would be at market value by the time of the new restriction.

UTILITY RISK

In May 2002, the Government introduced legislation to allow hydro prices to be driven by market forces (i.e. deregulated hydro in Ontario). This, in fact, caused hydro prices to rise, and while ResREIT was investigating the fixed-price options available in the market, the Government re-introduced a form of hydro regulation by agreeing that hydro costs will be guaranteed until 2006. As a result of this fix, hydro costs throughout ResREIT's Ontario portfolio will not exceed 4.3 cents per kilowatt hour, making it unnecessary for ResREIT to hedge its hydro costs. In 2001, ResREIT fixed its gas costs at 15 cents per cubic meter for a period of one year. This fix expired in October 2002 at which time ResREIT decided to float gas costs, as management felt at the time that gas costs were higher than expected.

VACANCY RISK

During the last 23 years, there have been very few vacancies in ResREIT's portfolio. However, in 2002 ResREIT experienced a higher-than-expected vacancy rate throughout its portfolio. Management found that there was a substitution effect where tenants were vacating their suites and purchasing homes as interest rates dropped to the lowest level they have been in 40 years, and first-time homeowners have taken advantage of this fact. In its efforts to reduce the vacancy rate from 3.4% to a budgeted level of 2.5%, management has increased hours of rental offices, hired and trained more rental agents, increased its advertising budget and, in some cases, provided rental abatements to new tenants. Management has introduced a tenant retention plan to ensure that fewer tenants leave by improving the tenants' rental experience.

Outlook

ResREIT will continue to benefit from strong industry fundamentals with a portfolio of apartment buildings in attractive locations where new supply is not economically viable. Vacancies are expected to stabilize around 2.5% in 2003, and ResREIT has launched several marketing initiatives to distinguish its offering in this slightly more competitive environment. Demand for quality rental apartments in attractive urban settings is consistent and growing as empty nesters, young professionals and transient executives increasingly seek out the location, flexibility and convenience benefits of renting rather than owning.

In 2003, management will continue to grow the portfolio through acquisitions, but only strategic properties at attractive prices, not growth simply for the sake of growth. With over \$44.7 million in capital expenditures since ResREIT's inception, the properties are now largely renovated and well positioned to realize the inherent internal growth of ResREIT's portfolio.

ResREIT's business philosophy is both resolute and proven, with a commitment to providing stable and growing distributions to unitholders and a better living experience for residents.

management's responsibility

FOR FINANCIAL REPORTING

The management of ResREIT is responsible for the preparation, integrity and fair presentation of the financial statements and all other information contained in the Annual Report.

The accompanying financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. PricewaterhouseCoopers LLP, the independent auditors, have examined the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. The Auditors' Report is set forth herein.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility through the Audit Committee. These financial statements have been reviewed and approved by the Board of Trustees and its Audit Committee. The auditors have direct and full access to the Audit Committee.



Dino Chiesa
PRESIDENT & CHIEF EXECUTIVE OFFICER



Maurice Kagan
CHIEF FINANCIAL OFFICER

auditors'

REPORT

TO THE UNITHOLDERS OF RESIDENTIAL EQUITIES REAL ESTATE INVESTMENT TRUST

We have audited the consolidated balance sheets of Residential Equities Real Estate Investment Trust ("ResREIT") as at December 31, 2002 and 2001 and the consolidated statements of income and cash flow for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of ResREIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of ResREIT as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
TORONTO, ONTARIO
FEBRUARY 7, 2003

CONSOLIDATED balance sheet

AS AT DECEMBER 31 – IN THOUSANDS OF DOLLARS

	2002	2001
ASSETS		
Income-producing properties (note 3)	\$ 406,971	\$ 401,847
Prepaid rents (note 4)	186,316	155,768
Loans receivable from employees and Trustees (note 5)	1,945	—
Funds held in trust	300	2,801
Cash and short-term investments	428	—
Accounts receivable	3,308	2,275
Deferred costs (note 6)	4,941	4,290
Prepaid expenses	2,742	1,887
	\$ 606,951	\$ 568,868

LIABILITIES

Mortgages payable (note 7)	\$ 376,586	\$ 339,631
Bank loan payable (note 8)	6,500	8,726
Accounts payable and other liabilities	7,530	6,703
Security deposits and last month's rent	8,901	8,292
	399,517	363,352

UNITHOLDERS' EQUITY

Issued and outstanding – 26,777,177 units (2001 – 25,868,458)

Unitholders' equity, beginning of year	205,516	188,250
Net income (loss) for the year	19,576	(4,672)
Issuance of units (note 9)	10,205	48,502
Public offering costs	(14)	(2,124)
Distributions to unitholders (note 10)	(27,849)	(24,440)
Unitholders' equity, end of year	207,434	205,516
	\$ 606,951	\$ 568,868

See accompanying notes to Consolidated Financial Statements.

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES



Robert D. Brown
CHAIR



Edwin F. Hawken
TRUSTEE

CONSOLIDATED statement of income

FOR THE YEARS ENDED DECEMBER 31 — IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS

	2002	2001
OPERATING REVENUES		
Property rental income	\$ 113,254	\$ 106,402
OPERATING EXPENSES		
Realty taxes	16,307	15,758
Operating expenses	34,825	33,523
Property management fees (note 12)	3,933	3,803
	55,065	53,084
PROPERTY NET OPERATING INCOME	58,189	53,318
TRUST EXPENSES (note 13)	3,072	3,852
INCOME BEFORE INTEREST, AMORTIZATION AND UNUSUAL ITEM	55,117	49,466
AMORTIZATION EXPENSE		
Amortization	12,692	10,840
Amortization of deferred financing and leasing costs	663	497
INCOME BEFORE INTEREST EXPENSE AND UNUSUAL ITEM	41,762	38,129
INTEREST EXPENSE		
Mortgage interest	21,972	20,658
Interest expense	299	750
Interest income	(85)	(277)
	22,186	21,131
NET INCOME BEFORE UNUSUAL ITEM	19,576	16,998
UNUSUAL ITEM		
Internalization expense (note 13)	—	21,670
NET INCOME (LOSS)	\$ 19,576	\$ (4,672)
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING (note 10)	26,491,569	23,834,593
BASIC NET INCOME (LOSS) PER UNIT (note 10)	\$ 0.739	\$ (0.196)
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING ASSUMING DILUTION (note 10)	26,652,485	24,164,378
DILUTED NET INCOME (LOSS) PER UNIT (note 10)	\$ 0.734	\$ (0.193)

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED statement of cash flow

FOR THE YEARS ENDED DECEMBER 31 — IN THOUSANDS OF DOLLARS EXCEPT PER-UNIT AMOUNTS

	2002	2001
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 19,576	\$ (4,672)
Items not affecting cash:		
Amortization	12,692	10,840
Amortization of leasing costs	120	48
Funds from operations:	32,388	6,216
Leasing costs	(223)	(212)
Changes in tenant receivables, net of allowance for bad debts	52	(438)
Changes in non-cash operating assets and liabilities	(477)	(170)
TOTAL FUNDS FROM OPERATIONS	31,740	5,396
INVESTING ACTIVITIES		
Income-producing property acquisitions	(5,777)	(31,859)
Prepaid rent acquisitions	(33,739)	—
Capital expenditures	(8,772)	(11,220)
TOTAL FUNDS USED IN INVESTING	(48,288)	(43,079)
FINANCING ACTIVITIES		
Proceeds of new mortgage financing	69,302	110,916
Mortgage principal repayments	(32,347)	(79,322)
Deferred costs	(651)	(826)
Decrease in bank loan payable	(2,226)	(14,006)
Net proceeds from issuance of units	6,908	48,502
Public offering costs	(14)	(2,124)
Distributions to unitholders	(26,497)	(24,440)
TOTAL FUNDS FROM FINANCING	14,475	38,700
NET (DECREASE) INCREASE IN CASH	(2,073)	1,017
CASH, BEGINNING OF YEAR	2,801	1,784
CASH, END OF YEAR	\$ 728	\$ 2,801
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	26,491,569	23,834,593
TOTAL FUNDS FROM OPERATIONS PER UNIT	\$ 1.198	\$ 0.226
Cash is represented by:		
Funds held in trust	\$ 300	\$ 2,801
Cash and short-term investments	428	—
	\$ 728	\$ 2,801
INTEREST PAID DURING THE YEAR	\$ (22,148)	\$ (21,298)

See accompanying notes to Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED financial statements

FOR THE YEARS ENDED DECEMBER 31, 2002 – IN THOUSANDS OF DOLLARS EXCEPT WHERE INDICATED

1] Organization of Trust

Residential Equities Real Estate Investment Trust ("ResREIT") is a closed-end real estate investment trust created for the benefit of the unitholders pursuant to the Declaration of Trust dated January 28, 1998, as amended. On February 16, 1998, ResREIT completed an initial public offering of units and acquired 33 residential buildings comprised of 6,838 residential units and 209,042 square feet of commercial space across Canada. At December 31, 2002, ResREIT's portfolio consisted of 62 buildings, comprising 10,090 units and 225,103 square feet of commercial space.

2] Summary of Significant Accounting Policies

BASIS OF PRESENTATION

ResREIT's financial statements are prepared in conformity with Canadian generally accepted accounting principles. ResREIT's accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which ResREIT is a member.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ResREIT and its wholly owned subsidiary, Residential Equities Limited Partnership. All inter-company transactions have been eliminated.

INCOME-PRODUCING PROPERTIES

Income-producing properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Cost of the properties includes all amounts relating to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized as project improvements. The net recoverable amount represents the undiscounted, estimated future net cash flow expected to be received from the ongoing use of the property plus its residual worth, and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

Amortization of buildings is recorded using a 5% sinking fund basis to fully amortize the cost of buildings over 40 years. Capital improvements are amortized on a straight-line basis over their estimated useful lives ranging from three to 25 years. Equipment is amortized on a straight-line basis over the estimated useful life, ranging from three to 20 years.

PREPAID RENTS

Rents prepaid on acquisition of leasehold interests are deferred and amortized on a straight-line basis over the 35 year term of the leases. Prepaid rents include all costs relating to the rental of the properties plus all costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance. These costs are amortized on a straight-line basis over their estimated useful lives, ranging from two to 32 years.

FUNDS HELD IN TRUST

Included in cash and short-term investments are funds held in trust in the amount of \$300 (December 31, 2001 – \$801) to be used for capital expenditures and \$Nil (December 31, 2001 – \$2,000) held as a deposit on potential property acquisitions.

CASH AND SHORT-TERM INVESTMENTS

Short-term investments have maturities of three months or less.

DEFERRED FINANCING COSTS

Financing costs are deferred and amortized on a straight-line basis over the terms of the related financing, ranging from one to 10 years. CMHC insurance fees relating to mortgages with loan-to-book values greater than 75% are deferred and amortized over the 25-year amortization period of the mortgages.

DEFERRED LAND LEASE COSTS

In 2001, the annual rental rate on one of the land-leased properties was renegotiated for the next 20 years. Legal and valuation costs incurred are deferred and amortized on a straight-line basis over the 20-year period.

DEFERRED LEASING COSTS

Leasing costs such as commissions, tenant inducements and free rent, when incurred, are deferred and amortized on a straight-line basis over the term of the related leases.

NET INCOME PER UNIT

Net income per unit is calculated by dividing the net income (loss) by the weighted average number of units outstanding for the year. Diluted net income (loss) per unit reflects the potential dilution that could occur if units were exercised under the unit option plan using the treasury stock method.

STOCK-BASED COMPENSATION PLANS

ResREIT has two stock-based compensation plans: a unit option plan (*see note 9*) and a unit purchase plan (*see note 5*). No compensation expense is recognized when unit options are granted under the unit option plan or when units are issued under the unit purchase plan because they are issued at fair market value at the date of issue. For awards granted after December 31, 2001, note disclosure will present the pro forma basic net income, pro forma basic net income per unit and pro forma diluted net income per unit as if the fair-value based accounting method had been used to account for stock-based compensation. The pro forma disclosure will omit the effect of awards granted before January 1, 2002. Any consideration received on the exercise of unit options or the issuance of units is credited to unitholders' equity. If units or unit options are repurchased from employees, the excess consideration paid over the carrying amount of the units or unit options cancelled is charged to unitholders' equity.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Actual results could differ from these estimates.

FINANCIAL INSTRUMENTS

ResREIT's funds held in trust, cash and short-term investments, accounts receivable, prepaid expenses, bank loan payable, accounts payable and other liabilities, security deposits and last month's rent are carried at cost, which approximates their fair value due to their short-term nature.

3] Income-Producing Properties

2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	\$ 51,812	\$ —	\$ 51,812
Buildings	347,202	12,745	334,457
Capital improvements	20,508	3,974	16,534
Suite upgrades	2,967	1,711	1,256
Equipment	2,987	622	2,365
Leasing costs	512	160	352
Head office capital assets	250	55	195
	\$ 426,238	\$ 19,267	\$ 406,971

2001	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	\$ 50,946	\$ —	\$ 50,946
Buildings	342,291	9,437	332,854
Capital improvements	16,681	2,350	14,331
Suite upgrades	2,096	972	1,124
Equipment	2,525	423	2,102
Leasing costs	452	81	371
Head office capital assets	115	11	104
Work-in-progress	15	—	15
	\$ 415,121	\$ 13,274	\$ 401,847

4] Prepaid Rents

2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Leasehold interests	\$ 194,377	\$ 21,396	\$ 172,981
Leasehold improvements	14,457	3,514	10,943
Suite upgrades	1,751	1,136	615
Equipment	2,123	468	1,655
Leasing costs	163	41	122
	\$ 212,871	\$ 26,555	\$ 186,316

2001	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Leasehold interests	\$ 160,638	\$ 16,362	\$ 144,276
Leasehold improvements	11,605	2,337	9,268
Suite upgrades	1,347	714	633
Equipment	1,867	323	1,544
Work-in-progress	47	—	47
	\$ 175,504	\$ 19,736	\$ 155,768

5] Unit Purchase Plan and Loans Receivable from Employees and Trustees

At the annual and special meeting of ResREIT held on June 5, 2001, unitholders approved the creation of a unit purchase plan (the "Plan"), allowing for the issuance of a maximum of 500,000 units to Trustees, management and employees. In December 2001, 122,700 units were granted at the price of \$14.76 per unit for a total of \$1,811. The transaction was completed in February 2002. In 2002, an additional 32,358 units were granted amounting to \$434. In accordance with the Plan, ResREIT has provided interest-free loans for these amounts to participants for an initial term of three years. The units are held in trust for the participants by the agent of the Plan as security for the loans. Participants are required to allocate 75% of monthly distributions to pay down the loan principal.

As at December 31, 2002, 140,058 units had loans outstanding under the Plan as follows:

	NUMBER OF UNITS	PRICE PER UNIT
Balance, beginning of year		Nil
Issued during the year:		
February 2002	107,700	\$ 14.76
September 2002	5,000	\$ 13.84
December 2002	27,358	\$ 13.35
Balance, end of year	140,058	

6] Deferred Costs

2002	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Financing fees	\$ 6,667	\$ 1,774	\$ 4,893
Land lease fees	53	5	48
	\$ 6,720	\$ 1,779	\$ 4,941
2001	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Financing fees	\$ 5,473	\$ 1,234	\$ 4,239
Land lease fees	53	2	51
	\$ 5,526	\$ 1,236	\$ 4,290

7] Mortgages Payable

Mortgages payable bear effective interest at rates ranging from 3.00% to 7.62% (weighted average rate of 6.21% as at December 31, 2002; 6.37% as at December 31, 2001) and mature between 2003 and 2012. All interest rates are fixed for the term of the respective mortgage with the exception of four mortgages totalling \$29,712, one that bears interest at the 30-day Bankers' Acceptance rate plus 1.00%, the second at the then-prevailing prime lending rate less 0.75% and two that bear interest at the then-prevailing prime lending rate less 0.50%; the rates are reset monthly. First and second charges on ResREIT's interests in real property investments have been pledged as collateral security for the mortgages.

Minimum future principal payments are as follows:

2003	\$ 15,412
2004	21,234
2005	21,080
2006	49,400
2007 and thereafter	269,460
	\$ 376,586

8] Bank Loan Payable

ResREIT has a revolving line of credit in the amount of approximately \$45,000 for acquisition and operating purposes, generally bearing interest at the prime lending rate with a maturity date of April 30, 2003. Second mortgages on four properties and a third mortgage on one property have been pledged as collateral security for the line of credit. The principal amount and any unpaid interest are payable on the maturity date.

At year end, ResREIT has utilized \$8,611 of its \$45,000 line of credit (including letters of credit totalling \$2,111). Included in the bank loan balance is \$Nil (2001 – \$245) in bank overdraft.

9] Units Issued and Outstanding

The number of units issued and outstanding is as follows:

	2002		2001	
	UNITS	\$	UNITS	\$
Balance, beginning of year	25,868,458	255,961	22,045,011	207,459
Public offering, closed July 5, 2001	—	—	3,410,000	44,330
Options exercised	652,100	6,607	410,900	4,135
Units issued under Distribution Reinvestment Plan	101,561	1,352	2,547	37
Units issued under Unit Purchase Plan	155,058	2,246	—	—
Balance, end of year	26,777,177	266,166	25,868,458	255,961

Under the unit option plan (the "Plan"), ResREIT may grant options to its Trustees, directors, officers and employees and the general partner of the Property Manager for up to 1,967,000 units at offering prices of \$10.00, \$11.00, \$13.56 and \$14.76 per unit. Under the Plan, the exercise price of each option equals the market price of ResREIT's units on the last trading date preceding the date of the grant and each option's maximum term, as approved by unitholders at ResREIT's annual general and special meeting held on June 5, 2001, is the close of business on the first business day following the fifth anniversary of each vesting date. 20% of the optioned units are exercisable during the year in which they are granted, and the balance of the optioned units is exercisable as to 25% in each of the following four years.

A summary of ResREIT's unit option activity for the years ended December 31, 2002 and 2001 is presented below:

	NUMBER OF OPTIONS	2002 WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	2001 WEIGHTED- AVERAGE EXERCISE PRICE
Options outstanding, beginning of year	1,155,400	\$ 10.63	1,460,000	\$ 10.18
Options granted	Nil	\$ Nil	111,500	\$ 14.50
Options exercised	(652,100)	\$ 10.13	(410,900)	\$ 10.06
Options cancelled	(14,000)	\$ 12.88	(5,200)	\$ 12.58
Options expired	(1,800)	\$ 14.23	Nil	\$ Nil
Options outstanding, end of year	487,500	\$ 11.21	1,155,400	\$ 10.63
Options exercisable, end of year	324,600	\$ 10.87	661,800	\$ 10.35

The following table summarizes information on unit options outstanding at December 31, 2002:

EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER AT DECEMBER 31/02	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (years)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER AT DECEMBER 31/02	WEIGHTED-AVERAGE EXERCISE PRICE
\$10.00	237,600	3.37		177,600	
\$11.00	153,800	3.72		109,400	
\$13.56	17,600	5.99		5,600	
\$14.76	78,500	5.93		32,000	
	487,500	3.97	\$ 11.21	324,600	\$ 10.87

10] Distributions, Distributable Income Per Unit and Net Income Per Unit

ResREIT makes distributions to unitholders on a monthly basis on or about the 15th day of each month, other than January and on December 31, in each calendar year. The Declaration of Trust provides that ResREIT will distribute to unitholders on an annual basis no less than the greater of (a) the income of ResREIT calculated in accordance with the *Income Tax Act*, and (b) 80% of the income of ResREIT calculated in accordance with Canadian generally accepted accounting principles excluding gains and losses from the disposition of real property and before any deduction for amortization of income-producing properties and prepaid rents, such amount which is available to be paid by ResREIT in any year being the "Distributable Income".

The internalization expense which was treated as an unusual item has been excluded from the calculation of distributable income for the prior year.

The following table reconciles net income (loss) for the year to distributable income for the year:

	2002	2001
Net income (loss)	\$ 19,576	\$ (4,672)
Add back		
Amortization expense (excluding amortization of deferred financing)	12,692	10,840
Amortization of leasing costs	120	—
Internalization expense	—	21,670
Distributable income	\$ 32,388	\$ 27,838
Weighted average number of units outstanding	26,491,569	23,834,593
Distributable income per unit	\$ 1.22	\$ 1.17

ResREIT distributed approximately 86% of its distributable income (2001 – 88%) during the year with a view to reducing the ratio to approximately 80% in two years.

For the year ended December 31, 2002, ResREIT distributed \$27,849 to its unitholders (2001 – \$24,440), comprised as follows:

	2002	2001
Taxable to unitholders as other income	30.63%	23.96%
Tax deferral to be deducted from adjusted cost base of individual unitholders	69.37%	76.04%
	100.00%	100.00%

For the year ended December 31, 2002, ResREIT made distributions to its unitholders, of which 30.63% is taxable to unitholders as other income, as follows:

MONTH	RECORD DATE	PAYMENT DATE	DISTRIBUTION PER UNIT	TAXABLE PORTION PER UNIT (30.63%)	NON-TAXABLE PORTION PER UNIT (69.37%)
January	January 31	February 15	\$ 0.0875	\$ 0.0268	\$ 0.0607
February	February 28	March 15	0.0875	0.0268	0.0607
March	March 28	April 15	0.0875	0.0268	0.0607
April	April 30	May 15	0.0875	0.0268	0.0607
May	May 31	June 15	0.0875	0.0268	0.0607
June	June 28	July 15	0.0875	0.0268	0.0607
July	July 31	August 15	0.0875	0.0268	0.0607
August	August 30	September 15	0.0875	0.0268	0.0607
September	September 30	October 15	0.0875	0.0268	0.0607
October	October 31	November 15	0.0875	0.0268	0.0607
November	November 29	December 15	0.0875	0.0268	0.0607
December	December 19	December 31	0.0875	0.0268	0.0607
Total distributions paid			\$ 1.0500	\$ 0.3216	\$ 0.7284

The following tables summarize the calculations of basic and diluted net income per unit:

2002	NET INCOME (numerator)	UNITS (denominator)	NET INCOME PER UNIT
Basic net income per unit			
Net income available to unitholders	\$ 19,576	26,491,569	\$ 0.739
Effect of dilutive securities			
Options		160,916	
Diluted net income per unit			
Net income available to unitholders and assumed conversions	\$ 19,576	26,652,485	\$ 0.734

Options to purchase 78,500 to 83,500 units at an exercise price of \$14.76 were outstanding during the second, third and fourth quarters of 2002 but were not included in the computation of diluted net income per unit because the options' exercise price was greater than the average market price of the units. The options, which expire from December 2006 to December 2010, were still outstanding at the end of 2002.

2001	NET (LOSS) (numerator)	UNITS (denominator)	NET (LOSS) PER UNIT
Basic net (loss) per unit			
Net (loss) available to unitholders	\$ (4,672)	23,834,593	\$ (0.196)
Effect of dilutive securities			
Options		329,785	
Diluted net (loss) per unit			
Net (loss) available to unitholders and assumed conversions	\$ (4,672)	24,164,378	\$ (0.193)

Options to purchase 87,500 units at an exercise price of \$14.76 were outstanding during the fourth quarter of 2001 but were not included in the computation of diluted net loss per unit because the options' exercise price was greater than the average market price of the units. The options, which expire from December 2006 to December 2010, were still outstanding at the end of 2001.

11] Income Taxes

ResREIT is taxed as a Mutual Fund Trust for income tax purposes. Pursuant to the Declaration of Trust, ResREIT is required to distribute its income for income tax purposes each year to its unitholders to such an extent that it will not be liable for income tax under Part I of the *Income Tax Act*. Therefore, no provision for income taxes is required on income earned by ResREIT. A unitholder is required pursuant to the *Income Tax Act* to include when computing income for tax purposes in each year the portion of net income and net taxable capital gains of ResREIT paid or payable to the unitholder in the year that ResREIT deducts in computing its income for tax purposes. No capital gains have been realized by ResREIT since its inception as no capital assets have been sold.

Based on ResREIT's distribution policy, the amount distributed to its unitholders in a year may exceed its income for tax purposes. On its Trust tax return, ResREIT claims the maximum capital cost allowance available in computing its taxable income. Historically, ResREIT's amortization for accounting purposes is lower than the tax capital cost allowance, which results in a tax deferral. For the year ended December 31, 2002, deductions claimed by ResREIT for income tax purposes exceeded the corresponding amounts recorded in its financial statements by \$11,047 (in 2001, deductions claimed by ResREIT for income tax purposes, including internalization payments, were less than the corresponding amounts recorded in its financial statements by \$10,527). Unitholders' distributions in excess of ResREIT's income for tax purposes are not included in the unitholders' income for the year – this portion is considered a tax deferral. The tax-deferred portion is deducted from the adjusted cost base of the unitholders' units of ResREIT. When the units are sold by the unitholder, a capital gain or loss will be realized and included in the income of the unitholder at the prevailing inclusion rate.

There are unrealized capital gains and losses accruing in ResREIT with respect to its capital assets, in the form of income-producing properties or prepaid rents, which may result in a future tax liability to the unitholders. Upon the disposition or deemed disposition by ResREIT of a capital asset, a capital gain and recapture of capital cost allowance will generally be realized to the extent that the proceeds of disposition exceed the adjusted cost base.

The cumulative net book value of ResREIT's assets for income tax purposes as at December 31, 2002 is \$34,753 (2001 – \$26,916) less than the amounts recorded in the balance sheet as at that date.

12] Property Management

ResREIT has entered into an amended property management agreement (the "management agreement") with Greenwin Property Management II L.P. (the "Property Manager") to receive property management services. The initial term of five years, which would have expired on February 16, 2003, was extended to February 16, 2006.

Annual property management fees payable to the Property Manager are 3.25% of gross rental revenues from properties managed by the Property Manager on behalf of ResREIT on the first 10,000 rental suites, 3.125% of gross rental revenues on the next 2,000 rental suites and 3.0% of gross rental revenue on rental suites in excess of 12,000. During the year, ResREIT incurred property management fees of \$3,933 (December 31, 2001 – \$3,803) pursuant to this management agreement.

In addition, a supervision fee is payable to the Property Manager for construction management services, at rates of approximately 4% to 5% of construction costs. During the year, ResREIT capitalized supervision fees of \$206 (December 31, 2001 – \$361) that were paid to the Property Manager.

The Property Manager is owned 100% by Greenwin Property Management Inc. ("Greenwin"). Two Trustees of ResREIT exercise control of Greenwin.

13] Trust Expenses

PricewaterhouseCoopers LLP (PwC) has served as the independent auditor of ResREIT since 1998. The aggregate fees expensed for audit-related services provided by PwC for the year ended December 31, 2002 were approximately \$130 (2001 – \$123). The aggregate fees expensed for other services, including tax-related services, provided by PwC for the year ended December 31, 2002 were approximately \$33 (2001 – \$7).

Advisory fees in the amount of \$1,372 were incurred in 2001 under an advisory agreement with Dundee Greenwin Advisor Limited Partnership (the "Advisor"). The advisory agreement was terminated upon the indirect sale of the Advisor's assets to ResREIT on May 30, 2001, for \$21,138 plus costs of \$532.

14] Risk Management and Fair Value

ResREIT is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its residents. ResREIT manages these risks as follows:

INTEREST RATE RISK

ResREIT is exposed to interest rate risk related to its mortgages and bank loan. ResREIT minimizes this risk by ensuring the debt maturities are spread out over a number of years and that its portfolio contains debt with primarily fixed interest rates. The Declaration of Trust prohibits the total indebtedness of ResREIT, on a permanent basis, to be more than 60% of the gross book value of the assets of ResREIT unless a majority of the Trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of ResREIT.

CREDIT RISK

Credit risk arises from the possibility that residents may experience financial difficulty and be unable to fulfill their lease commitments. ResREIT mitigates this risk of credit loss by ensuring that its mix of residents is diversified and by limiting its exposure to any one resident. Thorough credit assessments are conducted in respect of all new leasing.

FAIR VALUE

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

The bank loan and four mortgages bear interest at variable rates and, therefore, are considered to approximate fair market value.

The fair values of mortgages payable and loans receivable are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair-value estimates are not necessarily indicative of the amounts ResREIT might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value.

The fair value of mortgages payable as at December 31, 2002 is \$391,050 (2001 – \$350,447). The fair value of loans receivable as at December 31, 2002 is \$1,823 (2001 – \$Nil).

15] Commitments

LAND LEASES

Three of the properties have land leases with various expiry dates between March 31, 2045 and March 31, 2070. Generally, each lease provides for a nominal annual rental and an additional rental calculated from the results of property operations. Minimum annual rentals for the next five years under these leases, exclusive of participation payments, are as follows:

2003	\$	723
2004	\$	733*
2005	\$	758
2006	\$	773
2007 and thereafter	\$	773

**Rental payments under one land lease will be renegotiated in 2004 under the terms of the land lease.*

16] Segmented Disclosure

Substantially all of ResREIT's assets are in, and its revenue derived from, the Canadian residential real estate industry segment.

17] Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

unitholder

INFORMATION

ANNUAL MEETING

June 4, 2003, 3:00pm
TSX Auditorium
The Exchange Tower
130 King Street West
Toronto, Ontario

TRUSTEES

Robert D. Brown, FCA
CHAIR
Dino Chiesa
John H. Daniels
Abraham J. Green, C.M.
Edwin F. Hawken
Albert J. Latner
Graham S. Rennie
Graham D. Sensi

OFFICERS AND MANAGERS OF THE TRUST

Dino Chiesa
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Maurice Kagan
CHIEF FINANCIAL OFFICER AND SECRETARY

Jason Lester
VICE-PRESIDENT, ASSET MANAGEMENT

Marcia Franklin
CONTROLLER

Laura Holland
DIRECTOR OF OPERATIONS

Robin Lawder
DEBT ADMINISTRATION

AUDITORS

PricewaterhouseCoopers LLP

LAWYERS

Goodmans LLP
Blaney McMurtry LLP

TRANSFER AGENT

Computershare Trust Company of Canada
1500 University Street
Suite 700
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telephone: 1.800.332.0095
facsimile: 514.982.7665

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facsimile: 416.869.3004
Web site: www.resreit.com
property Web site: www.resrent.com
e-mail: resreit@resreit.com

UNIT LISTING

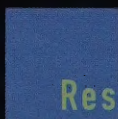
Toronto Stock Exchange
Stock trading symbol: REE.UN

DISTRIBUTIONS*

CENTS PER UNIT

QTR	2002	2001	2000	1999	1998
1st	26.25	25.50	24.75	21.70	7.82
2nd	26.25	25.50	24.75	22.50	17.51
3rd	26.25	25.50	25.25	24.75	18.67
4th	26.25	26.00	25.50	24.75	19.47
Total	105.00	102.50	100.25	93.70	63.47

*Each month's distribution was paid on the 15th day of the month following with the exception of December's distribution, which was paid on December 31.



ResREIT

WWW.RESREIT.COM